

Message Text

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INFO OCT-01 ARA-06 ISO-00 EB-07 SS-15 IO-10 AID-05 STR-01

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FM SECSTATE WASHDC

TO AMEMBASSY SAN JOSE

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E.O. 11652: N/A

TAGS: EFIN, IDB, CS

SUBJECT:U.S. VOTE IN IDB ON COSTA RICA LOAN

REF: (A) STATE 240985; (B) SAN JOSE 4131; (C) SAN JOSE 4260

1. AS STATED REFTTEL A, DECISION TO VOTE AGAINST HYDROELECTRIC POWER LOAN WAS BASED ON FACT THAT IDB PRESENTED NO SUPPORTABLE JUSTIFICATION FOR EXTENDING ORDINARY CAPITAL LOAN TERMS FOR THIS PROJECT TO 30 YEARS. U.S. POSITION WAS THAT ESTABLISHMENT OF SUCH A PRECEDENT WOULD HAVE UNFORTUNATE CONSEQUENCES FOR FUTURE IDB REFLOWS AND LENDING CAPACITY.

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2. IDB'S OWN PROJECT ASSESSMENT SHOWS THAT SHORTER TERMS WOULD NOT SIGNIFICANTLY HAVE AFFECTED ICE'S CASH FLOW OR

PROJECT'S FEASIBILITY. AS REPORTED REFTEL B, ICE ITSELF WAS NOT VERY CONCERNED WITH SHORTENED LOAN TERMS, AND IDB'S GENEROSITY APPEARS TO HAVE BEEN MOTIVATED BY DESIRE TO OUT-COMPETE IBRD.

3. REGARDING COSTA RICA'S STATUS AS AN MSA, THE LENGTHENING OF MATURITY WOULD HAVE NO EFFECT, GIVEN GRACE PERIOD WHICH WE AGREED TO EXTEND TO SIX YEARS, ON SHORT OR MEDIUM-TERM BALANCE OF PAYMENTS PROBLEMS.

4. IT IS TRUE THAT FEDERAL POWER COMMISSION CALCULATES BENEFITS OF HYDROELECTRIC PROJECTS OVER 50 YEARS ALTHOUGH DISCOUNTED BENEFITS AFTER 25 YEARS ARE INSIGNIFICANT. HOWEVER THERE IS NO REASON TO LINK FINANCING TERMS TO LIFE OF INVESTMENT. SUCH PROJECTS ARE TYPICALLY FINANCED BY COMBINATION OF LONG-TERM (25-30 YEARS) BONDS, EQUITY CAPITAL, AND 8-10 YEAR BANK LOANS, THE MIX DEPENDING ON THE STATE OF MONEY MARKETS AT THE TIME.

5. THE ISSUE OF LENGTHENING MATURITIES OR ORDINARY CAPITAL LOANS FROM THE IBRD AND REGIONAL DEVELOPMENT BANKS IS CURRENTLY UNDER DISCUSSION IN NATIONAL ADVISORY COUNCIL, WHICH MUST NECESSARILY TAKE INTO ACCOUNT IMPLICATIONS FOR CASH FLOW OF THESE INSTITUTIONS AND THEIR CONTINUED ABILITY TO ATTRACT PRIVATE CAPITAL. KISSINGER

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